Proposed amendments to IFRS 9 and IFRS 7

The proposed amendments address the following areas.

Area	What is the IASB[1] proposing?
Additional guidance on performing the solely payments of principal and interest (SPPI) assessment for the contractual cash flows arising from contingent features	A company would need to assess whether contractually specified changes in cash flows following the occurrence of any contingent event would give rise to cash flows that are SPPI irrespective of the probability of the contingent event occurring. For a change in contractual cash flows to be consistent with a basic lending arrangement, the occurrence of the contingent event would need to be specific to the debtor. However, the resulting contractual cash flows would not represent either an investment in the debtor or an exposure to the performance of specified assets.
Additional guidance on basic lending arrangements	The assessment of interest in 'SPPI' would focus on *what* a company is being compensated for, rather than *how much* compensation a company receives. Contractual cash flows would be inconsistent with a basic lending arrangement if they include compensation for risks or market factors that are not typically considered to be basic lending risks or costs (e.g. a share of the debtor's revenue or profit), even if such contractual terms are common in the market in which the company operates. Furthermore, a change in contractual cash flows would be inconsistent with a basic lending arrangement if it is not aligned with the direction and magnitude of the change in basic lending risks or costs.
Additional disclosure requirements for financial assets and financial liabilities that: • have contingent cash flows; and • are not measured at fair value through profit or loss	A company would be required to disclose the following information for contractual cash flows that could change the timing or amount based on the occurrence of a contingent event that is specific to the debtor. a) A qualitative description of the nature of the contingent event. b) Quantitative information about the range of changes to contractual cash flows that could result from those contractual terms. c) The gross carrying amount of financial assets and the amortised cost of financial liabilities subject to those contractual terms.
Additional guidance on financial assets with a non-recourse feature	A financial asset would have non-recourse features if a company's contractual right to receive cash flows is limited to the cash flows generated by specified assets both over the life of the financial asset and in the case of default. In other words, throughout the life of the financial asset, the company would be primarily exposed to the specified assets' performance risk rather than the debtor's credit risk.

1 International Accounting Standards Board

Proposed amendments to IFRS 9 and IFRS 7 (cont.)

Area	What is the IASB proposing?
Non-recourse features: relevant factors to consider in the 'look through' test	When assessing whether the contractual cash flows of a financial asset with non-recourse features are SPPI, a company may also need to consider factors such as the legal and capital structure of the debtor, including, but not limited to, the extent to which: a) the cash flows generated by the underlying assets are expected to exceed the contractual cash flows on the financial asset being classified; and b) any shortfall in cash flows generated by the underlying assets is expected to be absorbed by subordinated debt or equity instruments issued by the debtor.
Additional guidance on contractually linked instruments (CLIs)	The proposals clarify additional characteristics of CLIs, including: a) prioritisation of payments through a waterfall payment structure; b) the payment structure that creates concentrations of credit risk and results in a disproportionate allocation of losses between the holders of different tranches; and c) tranches having non-recourse features. Further, the proposals clarify that the SPPI instrument that needs to be present in the underlying pool of a CLI can be financial instruments that are not within the scope of IFRS 9 – e.g. lease receivables.
Additional disclosure requirements for equity instruments measured at fair value through other comprehensive income	A company would be required to disclose the amount of change in the fair value of such investments during the period, showing separately the amount of that change related to: a) investments derecognised during the reporting period; and b) investments held at the end of the reporting period.
Transition	A company would be required to apply the amendments retrospectively but would not be required to restate comparative information. The effective date is to be determined.

Proposed amendments to IFRS 9 and IFRS 7 (cont.)

Area	What is the IASB proposing?
Electronic cash transfers Recognition and derecognition of financial assets or financial liabilities: General requirement	When recognising or derecognising a financial asset or financial liability, a company would apply settlement date accounting unless paragraph B3.1.3 of IFRS 9 (regular way contracts) applies or a company elects to apply the exception for particular financial liabilities, as described below.
Derecognition of financial liabilities: Proposed exception	The proposals would allow a company to derecognise a financial liability that will be settled with cash using an electronic payment system before the settlement date if, and only if, the company has initiated the payment instruction and: a) the company has no ability to withdraw, stop or cancel the payment instruction; b) the company has no practical ability to access the cash to be used for settlement as a result of the payment instruction; and c) the settlement risk associated with the electronic payment system is insignificant.

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